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## **Business Risks That Keep CEOs Up at Night: Effective Diversity Programs Can Ease Some Tensions**



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The insurance giant Lloyds (formerly Lloyd's of London) in its 2011 *Lloyd's Risk Index* Survey identified the top three global business risks as: (1) loss of customers, (2) talent and skills shortages, including succession risk, and (3) reputational risk.<sup>1</sup> Of course, the risk of losing customers and potential damage to corporate reputation are inextricably linked to quality performance of the workforce.

Other recent expert opinions and executive surveys, as well as commentary from CEOs, frequently identify "talent risk" and the "war for talent" as among the most serious problems facing businesses today.<sup>2</sup>

Each of these risks—the *internal*, HR-related, and the *external*, customer/investor-related reputational—is increasingly affected by the company's overall ability to secure and retain the best workforce. That workforce must successfully address complex problems in an ever-changing business environment. Comprehensive, effective diversity and inclusion ("D&I") programs can significantly reduce many of these risks. The goal is to turn a company's diversity status from a potentially serious liability to a dramatic competitive advantage, and ultimately, enhance the bottom line. As Ford Motor Company President and CEO Alan Mulally has said:

"The more we embrace our differences within Ford—diversity of thought, experience, perspective, race, gender, faith, and more—the better we can deliver what the customers want and the more successful Ford will be."<sup>3</sup>

<sup>1</sup> See Lloyd's Risk Index 2011, <http://www.lloyds.com/newsand-insight/risk-insight/reports/risk-index-2011>.

<sup>2</sup> See, e.g., PricewaterhouseCoopers Saratoga "2011/2012 US Human Capital Effectiveness Report," <http://www.pwc.com/us/en/hr-saratoga/publications/human-capitaleffectiveness-report.jhtml>.

<sup>3</sup> Alan Mulally, President and CEO, Ford Motor Company, [www.corporate.ford.com/careers/diversity/mulally-diversitymessage-626p?&code=us](http://www.corporate.ford.com/careers/diversity/mulally-diversitymessage-626p?&code=us).

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*Competition for the Best Talent Is Increasing,  
Even in a Down Economy*

The Lloyd's *Index* notes that the...

"risk of talent and skills shortages rose from a lowly 22nd rank priority in 2009 to 2nd in 2011, and companies feel relatively less able to manage this risk. A number of pressures are likely to have driven this shift, including demographic...competitive...and productivity."

Demographic changes in the United States, including the steady march toward a "majority minority" nation, make it imperative that businesses recruit, develop, and retain much more diverse workforces, particularly at the top of these complex organizations. As the Boston Consulting Group "Creating People Advantage 2012" report states:

"Changing demographics pose significant challenges—indeed, risks—for all companies, large and small. They compound the already significant challenges of managing the talent pipeline. Specifically, companies face capability risks—the loss of critical knowledge and skills—as well as productivity risks."<sup>4</sup>

<sup>4</sup> See "Creating People Advantage 2012," Boston Consulting Group, October 2012.

Anyone who still doubts the impact of changing American demographics on our society, need only look to the recent front page headlines crediting demographics in the decisive re-election of President Barack Obama. His victory resulted, in part, from growing numbers of, and participation by, African American, Hispanic, female, and younger voters, and a decline in the overall “white vote”—from 77 percent to 74 percent to 72 percent of the total vote in 2004, 2008, and 2012, respectively.<sup>5</sup>

Few business commentators believe that the poor economic environment creates a “buyer’s market” for talent. Quite to the contrary, as the Boston Consulting Group report states:

“The demographic data show unequivocally that companies face major challenges in filling their job pipelines with well-qualified employees. The most desirable candidates aren’t making things any easier: top talent today seeks—indeed, demands—career opportunities, the freedom to work anywhere, *diversity in the workplace*, an inspiring work environment, and generous compensation and benefits” (emphasis added).

Successful companies do not wish to lose their best talent nor do they pursue just *any* employee for challenging positions. They want the *right* employee, with the *right* skill sets, and the ability to work collaboratively with other employees.

Corporate leaders seek the “best and brightest” in bad times and good, and there is never an overabundance of talent. The business community is recognizing that minorities, women, and other “underutilized” groups are essential for emergent and successful companies to ultimately win the “war for talent.”<sup>6</sup> Those diverse employees who have the requisite skills and experience now have the luxury to choose employers with good reputations, that embrace their values, and appreciate and reward individual contributions—regardless of race, gender, or other personal characteristic. Creating both the reality and the reputation for an inclusive environment greatly helps companies attract the best and brightest of *all* candidates, but particularly minorities and women.

### *Purposeful Diversity Programs Help Win the ‘War for Talent’*

Employers recognize the importance of a diverse and inclusive workplace as one vehicle to help attract talent and aggressively recruit and nurture their workforces. Leading companies emphasize efforts to expand the pool of eligible candidates (ensuring diverse representation in that pool), which has been demonstrated to lead to the best hires. As the diverse and inclusive workplace is created or expanded, employers must find ways to mentor, develop, and retain highly productive, diverse employees and help them become more effective. As PepsiCo Chairman and CEO Indra Nooyi has said:

“We’re always looking at how we’re going to increase the reputation of the company, we’re always looking at the turnover statistics and how we’re developing our people in terms of promotion metrics. At the end of the day, we can do a recruiting blitz and get people in, but if you can’t keep them, and keep them happy then you really haven’t gotten the diversity and inclusion journey.”<sup>7</sup>

Sustaining employee engagement, productivity, and dedication requires regular and meaningful communication and supportive actions from both company executives as well as middle management. Every manager needs to understand the business imperative for highly productive teams, drawn from diverse populations.

World class companies recognize that to ensure future success, every manager (from the CEO down) must help foster a diverse workforce and an inclusive workplace to achieve essential business results. Bluntly stated, white male managers must continue to be important contributors to future business performance, and understand that securing, developing, and promoting a diverse workforce is critical to *their own longterm success*. As McDonald’s CEO Donald Thompson noted. “If you have a diverse team, your business results will be much better. That’s why we were No. 1 on the Dow last year.”<sup>8</sup>

Only by maintaining a productive, collaborative workforce can successful companies continue to achieve the optimum return on investment from their employees. Forward-thinking companies are focused on strategies to recruit, train, energize, and retain their 21st century workforces. For example:

- Paying greater attention to corporate reputation (including D&I) to retain status as an “employer of choice,” and attract the most talented employees, including a younger generation that is accustomed to and more comfortable in a diverse and inclusive environment;
- Implementing on-boarding processes that facilitate new employees immediately becoming connected to, and engaged with, the company;
- Creating or enhancing purposeful employee resource groups and internal diversity councils—as a demonstration of company commitment, and an effective method to obtain creative thinking around business-focused D&I objectives;
- Improving employee engagement and retention efforts, utilizing employee surveys, coaching, mentoring, career development counseling, and training programs (for *all* employees—which consciously includes minorities, women, and other underutilized groups); and
- Establishing or enhancing company-wide succession and “high-potential” advancement programs, with early

<sup>5</sup> See “Party Coalition at a Crossroads,” *Washington Post*, November 8, 2012.

<sup>6</sup> Other groups identified as underutilized include disabled, LGBT, veterans, and older workers.

<sup>7</sup> Interview of Indra Nooyi, Chairman and CEO, PepsiCo, in *DiversityInc-Digital*, May 2008.

<sup>8</sup> “Diversity Helps Innovation: McDonald’s Chief,” *Chicago Sun-Times*, May 3, 2012.

identification of the best performers (including diverse employees), aimed at reducing turnover and building stronger pipelines of this vital group of future leaders.

### ***Changing Demographics and Increasing Minority 'Buying Power' Fuel Need to Enhance Workforce Diversity and Workplace Inclusion***

As noted above, even during these tough economic times, the competition for the “best and brightest” is intense and increasing. This situation is exacerbated by the need to respond to the marketplace—*i.e.*, rapidly changing demographics, increased buying power of women and minorities, and the emergence of foreign markets. The historic reliance on white males as the predominant source of corporate leadership—from corporate boards, to CEOs to other C-suite executives—is now untenable. The white male candidate pool is no longer sufficient, in either quantity or quality, to satisfy larger and wider future demands. The “war for talent” must now be waged on a broader and more diverse battlefield. The U.S. Census Bureau projects that this country will be a “majority-minority” nation by 2042, a projection date that is continually advancing as the growth of people of color accelerates.<sup>9</sup> The U.S. labor force is becoming more diverse at an even *faster* rate. The Census Bureau projects the labor force will be 50 percent minority by 2039.

In 2011, women made up 46.6 percent of the U.S. labor force, but held only 14.1 percent of executive officer positions in *Fortune 500* companies. These statistics caused Irene Rosenfeld, Chairman and CEO of Kraft Foods, to comment:

“[The statistics] trouble me, because they mean we are missing the contribution of half the population, and it’s one of the reasons at Kraft Foods, diversity and helping women and other underrepresented minorities continue to succeed has been a key mission of ours.”<sup>10</sup>

General Motors Chairman and CEO Dan Akerson was even more direct in an interview with *Wall Street Journal Online* when asked why he made a concerted effort to promote and recruit more women:

“I don’t know if it was so much conscious as recognition of talent...So, to me it’s not so much gender based, it’s just capability.”

Mr. Akerson further noted:

“[W]ho are our customers? Women in our society control or influence 80 percent of the purchase decisions. I don’t know if that’s true, but I’m real confident 60 percent of the purchase decisions on cars...are done by women.”<sup>11</sup>

The competition for diverse executives, in particular, with certain unique skill sets is becoming fiercer as the proportion of minorities

in the population increases. This is particularly true in industries where the demand for diverse managers is growing faster than the training and experience levels of minority and female executives available to fill these special skills positions. The ability to work with, and lead, a diverse workforce is also becoming more essential in the global marketplace. The best and brightest of *all groups* must have both unique skills and training, as well as the cultural competence and experience, to manage the diverse workforce of today and tomorrow.

### ***High Profile Lawsuits Damage Corporate Reputations***

While major corporations are more attuned than ever to the value of a diverse workforce as one crucial means to meet and address “talent risks,” minorities and women in certain industries are dramatically underrepresented and, some suggest, underappreciated. For example, according to a study by the *American Sociological Review*, the economy suffers \$64 billion per year in turnover costs due to workplace “unfairness.” Additionally, minorities are three times more likely to leave a company for real or perceived unfairness. Employees who feel they have been mistreated become less engaged, less productive, and more likely to leave. Employees from underutilized groups (*i.e.*, protected classes) also may file Federal complaints with the U.S. Equal Employment Opportunity Commission (“EEOC”), Office of Federal Contract Compliance Programs (“OFCCP”), or lawsuits. Employees who have been terminated are even more likely to file legal actions.

Class action lawsuits alleging race and gender discrimination at major companies in recent years have resulted in verdicts and settlements as high as \$250 million dollars. Class action lawsuits, such as the landmark 1990s *Texaco* and *Coca-Cola* cases, can spark “diversity crises.”

In a diversity crisis, as opposed to typical discrimination lawsuits handled by human resources and the law department, the entire company comes under scrutiny. CEO and executive management are forced to spend inordinate time focused on crisis management and the aftermath. There may be customer boycotts or investor revolts (*e.g.*, *Texaco* stock lost more than \$1 Billion of market value in the first few weeks of its crisis). Employee morale and productivity plummet as employees (and their friends and families) question the company’s values. Other intangible costs include increased scrutiny by government regulators and damage to corporate image and reputation (which the Lloyd’s survey identifies as one of the top three business risks).

### ***Effective D&I Can Enhance Business Achievement and Reduce Diversity-related Risks (i.e., Talent Shortage, Customer Loyalty, and Reputational Risks)***

CEOs are more aware of the increasing value of a diverse and inclusive workplace. James Murren, President, Chairman of the Board, and CEO of MGM Resorts International has said that:

“Diversity has enabled us to learn and benefit from...the many disciplines, life experiences, and wisdom of the many thousands of our employees.”

<sup>9</sup> “An Older, More Diverse Nation by Mid-Century,” U.S. Census Bureau Press Release, August 14, 2008.

<sup>10</sup> “Advancing Women, Building Business,” *The Progressive Grocer*, May 2012.

<sup>11</sup> “Women in a Man’s World,” *Wall Street Journal Online*, May 7, 2012.

Xerox CEO Ursula Burns expressed a similar sentiment stating that:

“A focus on diversity is good for our business. It gives us the broadest pool of talent possible.”

Effective and comprehensive D&I programs have many benefits: (1) help companies achieve critical goals for recruitment, development, promotion, and retention of talented employees; (2) assist both company and employees to succeed in a 21st Century global marketplace; and (3) help employees live up to their potential. Equally important, where these programs improve corporate behavior they enhance retention and reduce turnover among minority and female workers. One test is to compare minority and female turnover to that of white males. A dramatically greater turnover rate for minorities and women is a sure sign of a broader problem.

Forward-thinking management, seeking to mitigate risks of talent shortages and excessive turnover, are paying close attention to D&I program results. The value of these programs goes well beyond merely meeting Federal and local compliance mandates. Today’s programs enhance long-term workforce stability and productivity, and foster corporate economic success. As Procter and Gamble Chairman of the Board, President, and Chief Executive Officer Robert McDonald stated:

“I am a firm believer that diversity and inclusion is a competitive advantage for our organization...We have no hope of touching and improving the lives of the world’s consumers if we don’t first begin with touching and improving the lives of P&G employees.”<sup>12</sup>

### *Steps to Enhance D&I Programs, Performance, and Profile*

Key steps that leading companies utilize to ensure D&I benefits include:

1. Establish “the business case” for diversity—tailored to the company’s business priorities and its corporate culture;
2. Assess the effectiveness of current D&I programs, with particular attention to recruiting, developing, and retaining highly talented employees from “underutilized” groups;
3. Audit business practices to reduce the business and legal risks associated with allegations of mistreatment of diverse employees<sup>13</sup> and create an action plan for more nurturing and inclusive workplaces that reward *all* successful employees;
4. Seek to be known for “*more than* a good place to *start* a career.” Once a company has made an investment in diverse talent, it must eliminate high cost turnover—

particularly where these human assets are lost to competitors; and

5. Enhance D&I programs beyond compliance. While affirmative action plans mandated for Federal contractors identify areas of greatest underutilization, business priorities (such as diversity on the board, in senior management, marketing, and operations, for example), are more critical to the company’s longterm strategic objectives. “Ideally, companies can successively coordinate their two functions [diversity & inclusion and affirmative action compliance] to...achieve both [their] quite different objectives.”<sup>14</sup>

### *Conclusion*

In summary, effective D&I programs can go a long way to address many aspects of Lloyd’s “triple threat” of business risks: (1) loss of customers, (2) talent/skills shortage, and (3) reputational risks. Business leaders in both Corporate America and global companies are experiencing the same *talent shortages* and turnover among high potential employees of all descriptions. Companies that only do the minimum required for compliance with non-discrimination, and even those with *pro forma* D&I programs, are falling behind leading companies that aggressively embrace D&I as a proactive tool to address the “war for talent.” Robert Iger, Chairman and CEO of the Walt Disney Company, has said:

“The company’s success is...in so many ways tied to its ability to succeed when it comes to diversity.”

Underutilization and turnover among minority and female employees is often greater than among white male employees; the dangers of this problem are more acute given rapidly increasing diversity of U.S. *customers* and *workforce*. In addition, lack of diversity impedes efforts to acquire and serve customers, and diversity-related crises severely impact *corporate reputation*. It has become imperative that business leaders manage an increasingly more diverse workforce, understand the needs and different experiences of diverse customers, and motivate greater productivity from all employees and executives.

The message, often overlooked, but effective in minimizing customer, talent, and reputation risks, is to prioritize and enhance effective D&I efforts. These efforts can lead to improved overall performance, and create a “profile” that helps attract and retain the “best and brightest” talent of *all* groups, while strengthening corporate reputation.

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<sup>12</sup> “Robert McDonald—The Procter & Gamble Company,” *Profiles in Diversity Journal*, March 1, 2012.

<sup>13</sup> In this context, allegations of discrimination, harassment, retaliation, hostile work environment, and other unfair treatment of those in “protected classes.”

<sup>14</sup> “Inside View: Affirmative Action and Diversity,” *DiversityInc*, Summer 2011, by Weldon H. Latham.